

THE

Cotton

SITUATION

BUREAU OF AGRICULTURAL ECONOMICS
UNITED STATES DEPARTMENT OF AGRICULTURE

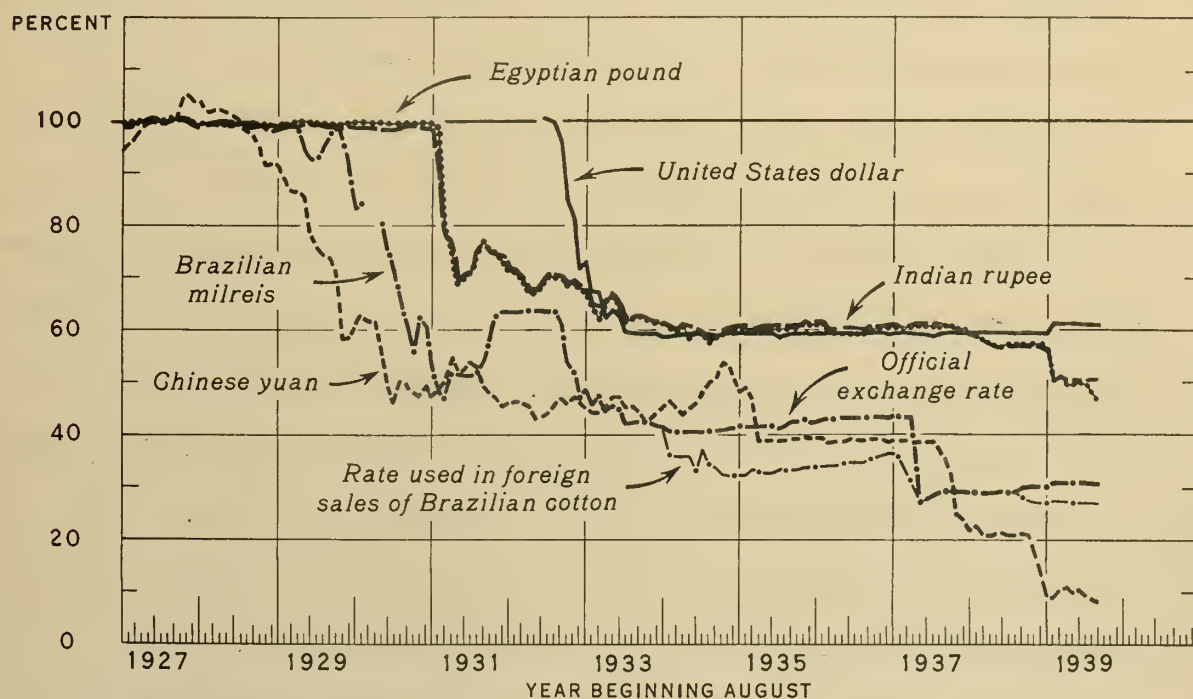
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BAE

MAY 29, 1940

RELATIVE GOLD VALUES OF SPECIFIED CURRENCIES, LONDON, 1927-39*

AUGUST 1927 - JULY 1928 = 100



*SINCE SEPTEMBER 2, 1939, BASED ON OFFICIAL RATE OF BRITISH POUND RATHER THAN ON FREE MARKET RATE

U. S. DEPARTMENT OF AGRICULTURE

NEG. 28527

BUREAU OF AGRICULTURAL ECONOMICS

SINCE 1927 THE GOLD VALUES OF THE CURRENCIES OF MOST COUNTRIES HAVE DECLINED. SUCH DECLINES HAVE HAD AN IMPORTANT BEARING ON COTTON PRICES IN THE VARIOUS PRODUCING AND CONSUMING COUNTRIES, SINCE DECLINE IN THE VALUE OF A NATION'S CURRENCY RELATIVE TO THAT OF OTHER NATIONS USUALLY INCREASES COTTON PRICES WITHIN THAT COUNTRY COMPARED WITH THOSE IN OTHER COUNTRIES. FOLLOWING THE SHARP DECLINES IN THE VALUES OF THE CURRENCIES OF CHINA, BRAZIL, EGYPT, AND INDIA BETWEEN 1929 AND 1931, COTTON PRICES IN EACH OF THESE COUNTRIES ALMOST IMMEDIATELY ADVANCED RELATIVE TO COTTON PRICES IN THE UNITED STATES. (SEE APRIL ISSUE OF THE COTTON SITUATION.) IN 1933, LIKEWISE, WHEN THE UNITED STATES DOLLAR DROPPED IN VALUE, COTTON PRICES IN THIS COUNTRY MATERIALLY INCREASED RELATIVE TO THOSE IN THE ABOVE COUNTRIES. DURING THE 8 MONTHS ENDED MARCH 1940 THE VALUE OF THE CHINESE YUAN HAS AVERAGED ABOUT ONE-FOURTH ITS VALUE IMMEDIATELY PRIOR TO THE SINO-JAPANESE WAR, AND PRICES OF CHINESE COTTON IN SHANGHAI HAVE AVERAGED ABOUT THREE TIMES AS HIGH AS IN THE 1936-37 COTTON MARKETING SEASON. WITHIN THE PAST 12 MONTHS THE CURRENCIES OF INDIA, EGYPT, AND BRAZIL HAVE AGAIN DECLINED, AND THESE DECLINES HAVE BEEN ACCOMPANIED BY HIGHER COTTON PRICES IN THOSE COUNTRIES RELATIVE TO COTTON PRICES IN THE UNITED STATES.

T H E C O T T O N S I T U A T I O N

Summary

The recent extension and intensification of the war has been a decidedly unfavorable development from the standpoint of world demand for cotton. The important manufacturing markets of Belgium, Holland, and northern France may now be shut off for an indefinite period. In Belgium and Holland combined, mill consumption of all cotton has averaged about 600,000 bales during the past few years. Should Italy declare war on the side of Germany, the markets in the Mediterranean area also might be lost. The Italian mills alone have consumed about 700,000 bales of cotton in each of the past 2 seasons.

Weekly exports of American cotton continued substantially higher than a year earlier through the first week of May. Following the extension of the war into Belgium and Holland, however, exports declined sharply and in the third week of May were 25 to 30 percent less than the unusually small exports in the corresponding week of last year and the year before. Total exports for the year should, however, approximate 6 million bales, since up to May 23 approximately 5,800,000 bales had already been exported.

Cotton mill activity in Europe outside the German-occupied area remained high during April but probably on a slightly lower level than at the beginning of 1940. In the United Kingdom and France a shortage of skilled labor was reported. In Italy, activity was apparently slackened somewhat, owing to a shortage of substitute fibers required for mixture with cotton in the production of goods for the home market. In May the small export demand for British cotton textiles caused English authorities to remove the restrictions (invoked in April) on sales of cotton textiles for non-military purposes in the home market.

In China and Japan, cotton mill consumption in April remained steady. In India, cotton mills were somewhat more active on the average than in March, apparently on account of the settlement on April 15 of the Bombay textile strike which began in early March. Japanese cloth exports declined still further in April and were the lowest for any April since 1932.

Cotton mill activity in the United States continued materially above last year during April and the first 3 weeks of May. Activity from March to April, however, declined somewhat more than seasonally. During the first 3 weeks of May the seasonally adjusted rate of consumption apparently remained about unchanged to slightly lower.

Since the second week of April, domestic manufacturers' weekly sales of cotton textiles appear to have continued below production, as in most weeks since late 1939. Consequently, unfilled orders in manufacturers' hands are believed to be relatively small, but trade reports do not indicate that unsold stocks are particularly large. With little change in the seasonally adjusted rate of activity during May, June, and July, United States mill consumption for the season would total about 7-3/4 million bales. Last season the total was 6,858,000 bales, including 122,000 bales of foreign cotton. The record high consumption was 7,950,000 bales in 1936-37.

Requests for the release of Government-loan cotton have declined appreciably with the decline in cotton prices since early May. With cotton prices at recent levels, comparatively little additional Government-loan cotton may become available for domestic consumption and export this season. As of the end of April, domestic stocks of cotton not under Government loan or ownership were approximately 150,000 bales larger than the exceptionally small stocks as of the end of April 1939. Stocks in the hands of domestic manufacturers on April 30 this year were 180,000 bales larger than a year earlier.

PRICES

Domestic prices drop 1-1/4 cents then make partial recovery,
largely as a result of war developments

From May 1 to May 18 the ten-market average of Middling 7/8 dropped from 10.52 to 9.21 cents per pound. The price on the latter date was the lowest in approximately 6 months and about the same as in the third week of May last year. The recent sharp decline is apparently attributable to developments in the European War and the accompanying decline in the prices of a number of other commodities and of securities. The spread of the war into the Low Countries on May 10 and more recently into northern France, together with the increased air raids, has materially reduced the outlook for cotton consumption in Europe. In Belgium and Holland combined, where mill operations have been severely disrupted by military activities, mill consumption of all cotton totaled close to 600,000 bales in each of the past 4 seasons.

From May 18 to May 27 domestic spot prices recovered most of the decline which occurred after the European battle fronts spread into Holland, Belgium and northern France. Middling 7/8-inch in the ten markets, which averaged 10.07 cents on the latter date, was only slightly less than just before the invasion of the Low Countries but nearly 1/2 cent lower than at the end of April and the beginning of May. The recovery during this period was apparently influenced by the less rapid progress of the German army and the prospective marked increase in the United States Government's expenditures for national defense. With the announcement of surrender of the Belgium army on May 28, however, the average in the ten markets dropped somewhat to 10.02 cents.

The recent decline in domestic cotton prices followed a period of 4-1/2 months when prices fluctuated within a rather narrow range. From the middle of December to the end of April the daily average price of Middling 7/8 in the ten markets varied between 10.16 and 10.93 cents per pound. For the most part, these prices were approximately 2 cents higher than during the corresponding period last season. The more favorable prices during this period than a year earlier may be attributed largely to the domestic export payment program, the increased Government-loan stocks, increased foreign purchases influenced in part by war preparations and anticipation of increased transportation difficulties and costs, and the higher industrial production and cotton consumption in the United States.

Liverpool prices also drop sharply

Following the spread of war into the Low Countries and the invasion of France, spot prices of the more important growths quoted in Liverpool dropped 1 to 1-1/4 cents per pound when converted at the official Sterling exchange rate. American Middling and Brazilian Sao Paulo Fair dropped from 13.65 cents on May 10 to 12.44 cents on May 17. The price of American Middling on the latter date was 3.13 cents above the price in New Orleans. This spread was more nearly in line with that existing as of Friday in 4 of the preceding 5 weeks. The ratio of the price of Indian and Brazilian cotton to the price of American Middling in Liverpool has remained comparatively steady during the past few weeks. The Liverpool

Cotton: Spot price per pound, specified growths at Liverpool
and New Orleans, specified periods

Season, month or day	Liverpool								New Orleans	
	American		Indian		Egyptian		Brazilian		American	
			Fine Oomra		F.G.F.		Uppers: Fair, Sao Paulo		Middling 7/8"	
			As a		As a		As a		Spread	
	Mid- dling 7/8"	Low Mid- dling	Ac- tual	% of Ameri- can	Ac- tual	% of Ameri- can	Ac- tual	% of Ameri- can	Ac- tual	Liver- pool over New Orleans
10-yr. av.	Ct.	Ct.	Ct.	Pct.	Ct.	Pct.	Ct.	Pct.	Ct.	Ct.
1927-28										
to 1936-37	14.50	13.60	11.19	78.0	17.12	117.9	14.08	97.7	12.65	1.85
1936-37	14.62	13.16	10.87	74.4	17.40	119.0	14.12	96.6	12.79	1.83
1937-38	10.31	8.78	7.96	77.1	13.10	126.7	10.18	98.7	8.79	1.52
1938-39	10.15	8.71	7.14	70.4	11.80	116.5	9.63	94.9	8.73	1.42
1938-39 -										
Feb.	10.02	8.55	6.95	69.4	11.56	115.4	9.53	95.1	8.60	1.42
Mar.	10.17	8.71	6.85	67.4	11.58	113.8	9.68	95.2	8.69	1.48
Apr.	9.67	8.21	7.02	72.6	10.90	112.7	9.19	95.0	8.61	1.06
May	10.55	8.97	7.45	70.6	11.08	105.0	9.83	93.2	9.30	1.25
June	11.04	9.38	7.61	68.9	11.47	103.9	10.18	92.2	9.45	1.59
July	10.61	8.95	7.31	68.9	11.43	107.7	9.85	92.8	9.37	1.24
1939-40 -										
Aug.	10.16	8.53	7.38	72.6	11.35	111.7	9.37	92.2	8.95	1.21
Sept.	11.21	9.79	8.56	76.4	12.49	111.4	10.71	95.5	9.02	2.19
Oct.	10.65	9.41	8.41	79.0	12.03	113.0	10.45	98.1	8.92	1.73
Nov.	11.66	10.79	9.46	81.1	12.70	108.9	11.59	99.4	9.40	2.26
Dec.	14.14	13.32	11.69	82.7	15.80	111.7	14.14	100.0	10.64	3.50
Jan.	14.81	14.12	12.31	83.1	17.50	118.2	14.87	100.4	10.79	4.02
Feb.	13.74	13.11	11.09	80.7	17.14	124.7	13.94	101.5	10.67	3.07
Mar.	13.06	12.53	10.68	81.8	17.17	131.5	13.23	101.3	10.43	2.63
Apr.	13.47	12.88	10.70	79.4	17.64	131.0	13.47	100.0	10.54	2.93
Feb. 2	13.90	13.23	11.29	81.2	17.29	124.4	13.99	100.6	10.40	3.50
9	13.92	13.33	11.25	80.8	17.11	122.9	14.17	101.8	10.72	3.20
16	13.62	13.03	10.90	80.0	17.01	124.9	13.87	101.8	10.74	2.88
23	13.48	12.90	10.90	80.9	17.14	127.2	13.74	101.9	10.80	2.68
Mar. 1	13.40	12.90	10.90	81.3	16.90	126.1	13.74	102.5	10.80	2.60
8	13.47	12.88	10.90	80.9	16.99	126.1	13.55	100.6	10.55	2.92
15	12.88	12.38	10.62	82.5	17.22	133.7	13.05	101.3	10.44	2.44
21	12.66	12.16	10.45	82.5	17.42	137.6	12.83	101.3	10.40	2.26
29	12.91	12.33	10.53	81.6	17.32	134.2	13.00	100.7	10.37	2.54
Apr. 5	13.15	12.56	10.46	79.5	17.42	132.5	13.15	100.0	10.47	2.68
12	13.62	13.03	10.88	79.9	17.84	131.0	13.62	100.0	10.55	3.07
19	13.57	12.98	10.78	79.4	17.69	130.4	13.57	100.0	10.52	3.05
26	13.53	12.95	10.67	78.9	17.64	130.4	13.53	100.0	10.58	2.95
May 3	13.72	13.13	10.77	78.5	18.03	131.4	13.72	100.0	10.53	3.19
10	13.65	13.06	10.85	79.5	18.15	133.0	13.65	100.0	9.97	3.68
17	12.44	11.86	9.84	79.1	17.01	136.7	12.44	100.0	9.31	3.13

Compiled from reports of the Liverpool Cotton Exchange except for the last 4 weeks, which are from cables to the Bureau of Agricultural Economics or from reports of the New York Cotton Exchange. Prices were reported in pence per pound and converted to cents per pound at current official rates of exchange.

price of Egyptian Uppers increased somewhat in relation to the price of American. On May 17 the price of Egyptian Uppers was 37 percent higher than the price of American Middling 7/8, whereas a month earlier it was only 30 percent higher. This increase may have resulted from uncertainties as to possible war developments in the Mediterranean.

Developments of significance since early May include the closing of the important cotton futures markets of Alexandria and Liverpool. The Alexandria market closed on May 13 for an indefinite period. This was attributed in part to the uncertainty as to military developments in the Mediterranean, which might check exports of Egyptian cotton in the event Italy enters the war. The Liverpool futures market was temporarily closed on May 20 but reopened on May 28 with trading permitted only at settlement prices as of May 16.

EXPORTS

Domestic exports fairly large in April
but exceptionally small in May

The 345,000 running bales of American cotton exported in April exceeded the unusually small exports of April last year by 94 percent but were nearly 10 percent smaller than in April 1938. They were almost 15 percent smaller than the April average for the 10 years ended 1938. Total exports for the 9 months (August through April), of 5,695,000 bales, exceeded the total for the like period last season by 92 percent and the total for the first 9 months of 1937-38 by 12 percent. The 9-month total for the current season was only 153,000 bales smaller (3 percent) than the average from August through April during the 10 years ended 1937-38.

During the first week of May, exports of American cotton were only about one-third larger than the exceptionally small exports in the corresponding week of last year and 5 percent smaller than in the corresponding week of 1938. Following the spread of the war to Belgium and Holland, exports to these countries ceased, and total exports for the week ended May 16, 1940 were only 18 percent larger than in the similar week of 1939 and 35 percent smaller than in the similar week of 1938. Despite the continued large gains in exports to Great Britain, total exports to all countries during the week ended May 23 were 25 to 30 percent less than the unusually small exports in the corresponding week last year and the year before. Total exports up to May 23 amounted to 5,759,000 bales compared with 3,103,000 bales to the corresponding date last season.

The rapid changes in the European military situation during recent weeks have had an important influence on prospective cotton exports for the weeks and months ahead. Should Italy enter the conflict within the next few weeks, exports would be further restricted. This would materially reduce the prospects for exports reaching 6 million bales during the 12 months ended July 1940. They may now fail to reach this figure anyway.

April exports of Egyptian down 27 percent;
9-month total up slightly

The approximately 132,000 bales (bales of 478 pounds) of Egyptian cotton exported in April were 27 percent smaller than those of April 1939

Cotton: Exports from specified countries, average 1928-29
to 1937-38, and seasons 1937-38 to date

Country of origin and destination	April					August to April				
	10-yr.av:			1940	10-yr.av:				1939-40	
	1928-29	1938	1939	1940	as a	1928-29	1937-38	1938-39	1939-40	as a
	to				% of	to				% of
	1937-38				1939	1937-38				1938-39
	1,000	1,000	1,000	1,000		1,000	1,000	1,000	1,000	
	running	run.	run.	run.	Per-	running	run.	run.	run.	Per-
	bales	bales	bales	bales	cent	bales	bales	bales	bales	cent
United States to:										
Germany	66	26	15	0	---	1,078	613	271	19	7.0
United Kingdom :	70	79	20	112	560.0	1,150	1,473	371	1,748	471.2
France	29	21	7	33	471.4	643	694	326	702	215.4
Italy	38	29	14	47	335.7	479	438	243	490	201.6
Spain	14	0	1/	21	---	180	0	18	258	1,612.5
Belgium	8	12	4	11	275.0	134	171	80	200	250.0
Canada	17	14	14	29	207.1	182	197	166	322	194.0
Japan	92	121	57	54	94.7	1,264	559	777	804	103.5
China	16	8	17	11	64.7	227	19	77	390	506.5
Other countries:	48	67	30	27	90.0	511	870	637	762	119.6
Total	398	377	178	345	193.8	5,848	5,034	2,964	5,695	192.1
	1,000	1,000	1,000	1,000		1,000	1,000	1,000	1,000	
	bales	bales	bales	bales	Per-	bales	bales	bales	bales	Per-
	478 lb.	478 lb.	478 lb.	478 lb.	cent	478 lb.	478 lb.	478 lb.	478 lb.	cent
Egypt to:										
United Kingdom :	37	38	78	45	57.7	446	471	463	506	109.3
France	15	16	21	45	214.3	165	196	149	279	187.2
United States ..	11	2	5	6	120.0	79	31	27	47	174.1
Germany 2/	14	15	14	0	---	123	165	154	12	7.8
Italy	7	7	6	11	183.3	92	93	90	90	100.0
Japan	7	12	12	6	50.0	90	67	120	129	107.5
British India ..	6	8	11	8	72.7	57	109	71	102	143.7
Other countries:	26	24	34	11	32.4	262	296	302	237	78.5
Total	123	122	181	132	72.9	1,314	1,428	1,376	1,402	101.9
Brazil to:										
Japan	3/	4	28	1	3.6	3/	59	198	84	42.4
United Kingdom :		8	3	10	333.3		139	150	178	118.7
Germany		39	35	0	---		304	151	70	46.4
France		6	5	1/			33	84	55	65.5
Italy		0	3	0	---		4	39	17	43.6
Netherlands		1/	1/	1/	---		8	20	26	130.0
Belgium		1/	1	1/	---		15	18	18	100.0
Other countries:		2	7	8	114.3		46	111	84	75.7
Total		25	59	82	23.2		268	608	771	69.0

Compiled from official sources.

1/ Less than 500 bales.

2/ Includes Austria beginning January 1938.

3/ Not available by countries.

but larger than in April 1938 or the 10-year (1929-38) April average. The decline as compared with last year occurred despite large increases in exports to France, Italy, and the United States. Exports to the United Kingdom, Japan, and a number of other countries amounted to less than 60 percent of those of April 1939.

DEMAND AND CONSUMPTION

UNITED STATES: Mill activity, further reduced in April,
still above last year

There was some seasonal decline in the daily rate of mill consumption in April, but the 624,000 bales consumed for the month exceeded that of April last year by 15 percent. With more working days in April this year, the daily rate of consumption, of approximately 28,400 bales, was, however, only 3-1/3 percent above that of April 1939. The seasonally adjusted index of cotton consumption for April, of 113 (1923-25 = 100), was 4 points lower than the index for March but 8 points above April 1939. The decline from 145 in December to 113 in April represents an unusually sharp decline for a 4-month period. Despite the sharp decline in mill activity since December, however, domestic manufacturers' sales of unfinished cotton goods appear to have been materially below production throughout most of this period.

The position of domestic manufacturers with respect to unfilled orders and stocks of cotton goods is believed to be such that a somewhat further decline in the seasonally adjusted rate of consumption may occur during the next 2 or 3 months unless cotton textile sales improve. The recent weakness in cotton prices has been accompanied by declines in domestic wholesale prices of cotton textiles. Declining prices are frequently conducive to relatively small sales and a reduction in stocks of cotton textiles in channels of distribution. On the other hand, following a period of declining prices, sales often increase materially, particularly in the event traders feel that prices might be expected to remain firm or increase. The expanded Government rearmament program may, either directly or indirectly, increase the demand for many types of cotton goods, if not this season, then later on.

For the 9 months (August to April), domestic mill consumption totaled 5,955,000 bales compared with 5,153,000 bales and 4,430,000 bales, respectively, in the corresponding periods of last season and the season before. This represented increases of 16 and 34 percent, respectively, and was second only to the record consumption of 6,017,000 bales in the like period of 1936-37. If the April rate of mill consumption were maintained during the remainder of the 1939-40 season, consumption for the season would total a little over 7-3/4 million bales. Last season, consumption totaled 6,860,000 bales and in the 10 years (1928-37) averaged 6,060,000 bales. Should mill activity decline seasonally or somewhat more than seasonally during the remainder of the season, consumption for the 12 months ended July 31, 1940 would drop somewhat below 7-3/4 million bales.

Consumption of imported Egyptian cotton (mainly 1-1/4 inches and longer) seems likely to approximate the 53,000 bales consumed in 1939-40, which was only about one-half the 10-year (1929-38) average of 109,000 bales. Consumption of American-Egyptian (averaging 1-9/16 inches) was running

considerably ahead of last season and may equal, or slightly exceed, 20,000 bales compared with 13,600 bales last season and the 10-year average of 14,300.

EUROPE 1/: Spread of war reduces mill activity

The extension of the combat zone to Holland, Belgium, and northern France, along with the large amount of property which has been destroyed in these areas, has undoubtedly materially affected cotton mill activity and cotton consumption in these regions. The extent to which cotton mills in these areas have been destroyed or manufacturing otherwise disrupted, however, is not known. From the standpoint of the next several months or longer, this may prove to be of less significance to American cotton producers than the probability or possibility that these mills and consumers in these areas may be lost as markets for American cotton and competing foreign growths. Should the war continue with the Germans occupying about the same area as at the present time, it might well mean that no more cotton from the United States or other important exporting countries would reach these mills for the duration of the war. In each of the past few seasons the mills of Belgium and Holland combined have consumed about 600,000 bales of all cotton, including 200,000 to 275,000 bales of American cotton. These developments and the intensification of the war seem certain to materially reduce European cotton consumption. Last month additional wartime control measures were initiated in Great Britain to restrict cotton textile consumption by British civilians. This was designed to make larger supplies of cotton textiles available for military purposes and for exports. The recent intensification of the war, however, with its greater demand for manpower and other resources, may mean that the British will make less effort to maintain their export trade. In May the restriction on sales to British civilians was withdrawn. This was apparently due to the drop in foreign demand for British goods growing out of military developments.

Cotton mill activity in Europe outside the German-controlled area remained high during April but probably on slightly lower levels than obtained at the beginning of 1940. In the United Kingdom and France a shortage of skilled labor was reported. In Italy, activity was apparently slackened somewhat, owing to a shortage of substitute fibers required for mixture with cotton in the production of goods for the home market.

In Great Britain, manufacturers' sales of cotton goods apparently continued small during April. Up to the announcement of the new margins on April 16, spinners were reluctant to quote, thus impairing the ability of weavers and other manufacturers to book new business. On the other hand, for a month following the announcement of the new margins, sales of yarn and piece goods for civilian home use were restricted by the Government restriction of civilian consumption of cotton goods. However, export sales and Government orders were placed in increased volume in the last half of April, but the impression was given that export sales of piece goods were none too encouraging, even up to the end of April. It was reported that Japanese, Indian, and Italian competition in the Far East and South America remained keen, and the number of recent trade agreements such as between Japan and Argentina, and Japan and Egypt have made it more difficult for British

1/ Based in part on a report from the office of the American Agricultural Attache, London, dated May 1.

exports to be maintained. Unsatisfactory foreign demand is said to have resulted in the withdrawal in May of the restriction on sales to British civilians.

The announcement of increased spinners' margins for cotton yarns, which came later than had been expected, did not bring any widening of net profit margins but apparently broadly provided for coverage of increased spinners' costs. These increased costs include higher wages, higher prices of accessories and services used by spinners, and the contribution of 25 pence per bale of raw cotton collected from spinners under the Cotton Industry Act (1940).

Mill consumption of raw cotton during the 7 months, September to March 1939-40, has been roughly estimated as equivalent to an average annual rate of about 2,700,000 to 2,800,000 running bales. Of this total, something like 1,300,000 bales would be the annual rate for American cotton. Estimated total consumption in those 7 months on an annual basis is at a rate a little higher than the estimated consumption of last season or the season before. Despite the increase in consumption, stocks of cotton in Great Britain appear to have shown a very marked increase. It is estimated that raw cotton stocks in Great Britain at the beginning of April probably amounted to from 1,700,000 to 1,800,000 bales. Of this, approximately 950,000 to 1 million bales represented American cotton. Compared with stocks on September 1, 1939 the total as of April 1 is believed to show an increase of roughly 1 million bales.

Effective May 30 all cotton, cotton linters and waste, and yarn and thread wholly or mainly of cotton imported into Great Britain is subject to import licensing. This announcement, made public on May 28 by the British Board of Trade and Ministry of Supply, is designed to insure "the most advantageous use of the freight space and foreign exchange available". It was announced at the same time that the Board had issued an open general license for imports of the goods covered by the order (except yarn and thread) from any part of the British Empire, France and French possessions, Egypt and the Anglo-Egyptian Sudan.

Cotton mill activity in France during April remained on a high level. A large percentage of the mills' capacity was reported as working for defense requirements and colonial exports. Civil needs continued neglected, and a large backlog of domestic trade requirements is thought to have accumulated. Civilian trade demand had not nearly been satisfied since the outbreak of war. Raw material supplies for military and export contracts were said to be of satisfactory volume, but a shortage of skilled labor continued to be reported.

As from March 29, 1940, the price of American cotton, basis strict Middling, to spinners in France was raised from 750 francs per 50 kilograms to 825 francs, or by 10 percent. Trade comment indicates that the extent of this increase was determined so as to leave a price margin sufficient to maintain, or increase, relative consumption of Indian cotton. With the approval of the Price Supervision Committee, yarn prices were raised accordingly.

Some purchases of American cotton from Liverpool in April were reported affected by the French import organization, and the trade expected increasing Anglo-French collaboration in securing and distributing raw cotton supplies.

The spread of the combat zone to northern France has undoubtedly reduced cotton mill activity in that important consuming area. It may also mean that these mills will be unable to obtain fresh supplies of raw cotton until after the end of the war. If so it has no doubt considerably reduced prospective mill consumption in France during the duration of the war even if operations in other regions of France are increased.

Italian cotton mills are reported to have maintained activity during March at 115 percent of the 1928 average, and to have been practically as busy as in the preceding 2 months. Some reports, however, indicated a slackening of activity in certain mills, owing to a shortage of substitute fibers required for home market production. Activity is believed to have continued high in April even though some further slackening may have occurred.

Production costs were raised by a wage increase of from 12 to 15 percent for all workers in the cotton industry, effective March 25. Sustained business prevailed on the home market in March, much of it for government requirements; new export orders, on the other hand, showed a decline in recent months. Japan, as a result of agreements concluded or still negotiated, is expected in some Italian quarters to make good headway in her cotton goods export to Argentina and Egypt. British competition was also reported as slightly keener in some markets. Italian exporters are said to complain of an inability to quote attractive export prices on the basis of their present production costs and the exchange rate of the lira.

Germany's recent invasion of Denmark, Norway, Holland, Belgium, and northern France may provide her cotton textile industry with considerable additional raw cotton. The quantities involved, however, are not known. Such cotton obtained by Germany will not all represent an increase in the supply of cotton available to the populace of the former German-controlled area. A part of it will no doubt be required in the production of goods for the people occupying these newly invaded areas. However, the consumption of cotton textiles by these people will no doubt be greatly restricted and most of this cotton used for other purposes.

Neutral reports indicate that some time ago almost no raw cotton was available for the cotton mills of Czechoslovakia. Polish mills, it was said, were being lightly supplied with raw cotton from stocks seized in the port of Gdynia. No further information as to prospective supplies of Russian cotton for the German-controlled area has become available.

Recent estimates for 1940 again place the prospective German output of cell-wool (staple fiber) at 300,000 metric tons, or not quite 1,400,000 bales of 478 pounds net, an increase of about 50 percent over 1939. Rayon filament yarn production in 1940 is scheduled to total about

100,000 metric tons or approximately 460,000 bales. The "7" or wool types of staple fiber were recently priced at from 1.80 to 2.00 marks per kilogram, while the "B" or cotton types of standard quality cost about 1.45 marks. Apart from pine and beechwood, straw and dried potato tops are reported as becoming more important as raw materials in cell-wool production. It was further reported recently that a new company had been formed at Vienna, Austria, with the object of promoting the planting of Arundo Donex (the largest of European reeds) as a source of cellulose for staple fiber production. According to the April 19 issue of the Manchester Guardian, the Italian rayon concern of Snia Viscosa is using Arundo Donex extensively and expect to obtain two-thirds of its 1941 cellulose requirements for staple fiber from this plant.

Mill activity in Spain has probably been materially curtailed since the last week of April. After April 28 a reduction of 50 percent in the allotment of raw cotton to the Catalan Textile Mills was to have taken place according to an announcement by the Subcomision Reguladora del Algodon, reported by the American Consulate at Barcelona. Theoretically, this step would permit the mills to operate 3 days a week, but some plants may have ceased operations entirely. Raw cotton purchases and in transit are reported to have totaled approximately 33,000 bales at the end of April, which is said to have constituted the entire reserves of the Spanish Government at that time, since credit from the Export-Import Bank had been used up. No credit or barter agreement providing a supply of raw cotton had up to that time been concluded, so far as could be learned in Barcelona.

ORIENT: April mill consumption steady in China and Japan,
makes recovery in India

In China, including Manchuria, cotton mill consumption in April was estimated at about 140,000 bales, according to a radiogram from the office of the American Agricultural Attache in Shanghai. This was only slightly less than the estimated 145,000 bales consumed in March but apparently somewhat smaller than a year earlier. Since last October, monthly mill consumption in China has fluctuated within the narrow range of 135,000 to 145,000 bales. The estimated consumption from August through April, of approximately 1,200,000 bales, is somewhat less than for the similar period last season. The slight decline in April was apparently due to a material decline in mill activity in Tientsin. In Shanghai, activity is reported to have remained high, in other places to have shown little change.

No great change in the mill consumption situation is expected within the near future unless a collapse should occur in yarn and piece goods, which did not seem likely about the middle of May when information was last received from Shanghai by radio. High prices of yarn beyond the limited purchasing power of a large number of the people and heavy accumulation of speculative stocks are expected, however, to cause a reduction in cotton mill consumption within the next few months. It is estimated that in early May yarn and piece goods stocks were considerably larger than normal, being estimated at equivalent to at least 400,000 bales of raw cotton and more than twice as large as at the beginning of the season. The Shanghai yarn market was under heavy

speculative influence during much of March and April, on account of further depreciation of Chinese currency and the preference for yarn over the rapidly depreciating currency.

Because of large profits obtainable from yarn and anticipation of a shortage of shipping space, spinners in China have been buying new cotton from abroad quite heavily. Despite the drastic depreciation of the Chinese currency, such buying continued on a moderate scale up to the time the report from Shanghai was received about the middle of May. In early May a new record high price for yarn was established when a price of 1.715 yuan prevailed on 20-count spot yarn, but declined thereafter. Some heavy purchases of piece goods for South and West China contributed to the increase in yarn prices as ¹¹⁴⁸³ comparatively heavy purchases for export, which have been stimulated by the marked depreciation in the Chinese currency.

Cotton mills in India were somewhat more active on the average in April than in March. The 210,000 bales (of 400 pounds net weight) of Indian cotton consumed by Indian mills in April represented an increase of about 6 percent over consumption in March. Consumption in each of these 2 months, however, was the smallest for any other month since about the middle of 1935 and some 14 to 18 percent smaller than the year earlier. In view of the drop in consumption from 245,000 bales to approximately 200,000 bales in March resulting largely from the Bombay textile strike which began in early March, it seems likely that the increased consumption in April over March was due at least in part to the settlement of the strike on April 15. This would suggest that activity and consumption during the last half of April and in May probably more nearly approached the February rate. Despite the lower consumption in March and April, the total for the 9 months (August through April) was only slightly less than the record high consumption for the corresponding period last season.

Japanese production of pure cotton yarn in April, of 211,000 bales (of 400 pounds), was almost equal to that for March, indicating that cotton mill consumption also remained about unchanged. For the 9 months (August through April) consumption of all cotton by mills of the Japanese Cotton Spinners' Association totaled approximately 1,830,000 bales. This was slightly smaller than in the corresponding period last season and nearly one-third smaller than in the first 9 months of 1937-38. It was the smallest for any corresponding period since 1930-31, due largely to the Government restriction on cotton consumption by Japanese civilians.

Japanese cloth exports in April totaled 146 million square yards compared with 194 million in March and 173 million in April 1939. They were the smallest for April since 1932. Despite small exports for April, the 9-month total (August through April), of 1,771 million square yards, was 5 percent higher than during the corresponding months last season, although smaller than in any other corresponding period since 1933-34. The decline in Japanese cotton goods exports appears to be due in large measure to wartime foreign trade restrictions in British and French territories, depreciation in the value of pound Sterling, restrained buying in some areas due to uncertainty as to the course of the European War, and increased manufacturing costs in Japan.

Stocks of unsold piece goods in Japan are reported as having become alarmingly large and cotton cloth sales in May continued inactive. The large unsold cloth stocks together with the large stocks of raw cotton which have not been paid for have recently been investigated by officials of the Finance and Commerce and Industry Ministries. Following this the authorities requested merchants to temporarily suspend purchases of raw cotton. Japanese spinners agreed in April or early May to voluntarily plan to curtail output about 10 percent for the 3 months May, June and July. Producers of one type of cloth (jeans) are reported to have agreed to reduce production by 30 percent.

ACREAGE, PRODUCTION, STOCKS. AND SUPPLY

Increased Chinese crop expected

It is expected that the 1940 cotton crop in China will show a significant increase this season unless weather conditions are unusually unfavorable, according to a recent report from the American Agricultural Attache at Shanghai. It is now expected that the crop may be something like 20 to 25 percent larger than the present estimate of the 1939 crop, of 1,900,000 bales. This increase is expected to be offset in part by a decrease in the carry-over of unmanufactured Chinese cotton.

Cotton acreage expansion plans are being pushed both in the Chinese-controlled territory and in Japanese-occupied areas. Acreage expansions are expected to be limited in some areas due to further shifts to food production in view of the unsettled conditions. The Japanese are encouraging cotton production through a distribution of free seed and by loans extended for the digging of irrigation wells. Plans are being carried out by a Japanese Special Service Section to increase plantings in occupied areas of central China, especially in Kiangsu province. Greater success there than in North China is expected because of comparatively less serious handicaps.

If the sharp rise in cotton prices recorded in Shanghai (see cover page of April issue of The Cotton Situation) is reflected to any considerable extent in prices in the interior of China, this may prove of some importance in encouraging an expansion in Chinese cotton acreage. It is recognized, however, that prices of most other commodities in Shanghai have also increased greatly and that the interior prices of most of these commodities may have increased somewhat in line with the advance in cotton prices. Furthermore, it is reported that in at least many areas the producers have to sell their cotton to Japanese buyers at fixed prices below the "world" market level.

Private estimates of United States acreage range from slightly lower to somewhat above last year

The private estimates of the United States cotton acreage released in May which have come to our attention show considerable variation in the indicated area to be planted this year. These estimates vary from slightly below to about 8 percent above the revised official estimates of acreage in cultivation July 1, 1939, of 24,683,000 acres. The first official estimate of 1940 acreage will be released on July 8.

Domestic stocks of free cotton again smaller

United States stocks of "free" American cotton on April 30 this year were only slightly larger than those a year earlier and nearly one-third less than the 10 year (1928-37) April 30 average. The total United States supply of American for the current season was about $1\frac{1}{2}$ million bales larger than that of last season and at the end of April stocks of Government owned or financed cotton were nearly $2\frac{1}{2}$ million bales smaller than last year. These increases, however, were almost offset by the increase in domestic consumption and exports. Consequently United States stocks of "free" American cotton at the beginning of May were only approximately 150,000 bales larger than the 3,650,000 bales of such stocks as of the corresponding date last year.

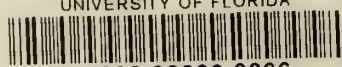
With the drop in cotton prices the first 18 days of May, requests to the Department for release of 1938 loan stocks dropped sharply and continued low through May 23 despite a substantial recovery in spot prices.

1940-41 cotton marketing
quota regulations

Cotton marketing quota regulations for the 1940-41 season, practically identical with those in effect for the past two years, were announced May 23 by the Agricultural Adjustment Administration. The cotton marketing quota for each farm is the normal or actual production of cotton on the farm's allotted acreage, whichever is greater, plus the amount of any carry-over of penalty-free cotton.

In accordance with the Farm Act, the regulations provide for collection of a penalty of 3 cents a pound on 1940 cotton sold in excess of the farm marketing quota. Penalties will be collected also on cotton produced in 1938 or 1939 which would have been subject to penalty if marketed in those years, provided this cannot be marketed within the 1940 quota. The penalty is 2 cents a pound on 1938 cotton, and 3 cents on 1939 cotton.

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